

1 **UNDERTAKING J8.2**

2
3 **Undertaking**

4
5 Clarify the Z-factor materiality threshold under the nuclear Custom IR application

6
7
8 **Response**

9
10 **Nuclear Materiality Threshold**

11
12 OPG proposes that a \$10M regulatory materiality threshold would apply to an
13 application to address the financial impact of unforeseen events related to the nuclear
14 business.

15
16 This is the same materiality threshold that OPG has proposed and applied in prior
17 proceedings, and used to prepare the Impact Statements filed in this application. In past
18 proceedings, a \$10M materiality threshold has been used to determine whether an
19 accounting order application is required¹ and whether OPG is required to file an update
20 to comply with section 11.02 of the OEB's Rules of Practice and Procedure.²

21
22 OPG believes that \$10M remains an appropriate regulatory materiality threshold. OPG
23 notes that the OEB has capped the range of materiality thresholds for electricity
24 distributors at \$1M, even for distributors with large rate bases and revenue
25 requirements.³

26
27 **Treatment of Unforeseen Events under Nuclear Custom IR**

28
29 OPG has not specifically proposed the mechanism by which the financial impacts of
30 unforeseen events related to the nuclear business should be dispositioned, only that
31 such events be addressed pursuant to the *Renewed Regulatory Framework for*
32 *Electricity Distributors*.⁴

33
34 A Z-factor is only one method by which the OEB may address the financial impact of
35 unforeseen events under a Custom IR framework.

36

¹ EB-2012-0002, Payment Amounts Order, April 18, 2013, page 7; EB-2013-0321, Decision with Reasons, November 20, 2014, page 127.

² E.g., EB-2013-0321, Ex. N2-1-1, page 1, line 16.

³ *Filing Requirements for Electricity Distribution Rate Applications* (July 14, 2016), Chapter 2, page 6, section 2.0.8.

⁴ *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (October 18, 2012), page 13; Transcript Volume 8, March 10, 2017, page 23, lines 19-28.

1 OPG has previously addressed the financial impact of material unforeseen events
2 through an accounting order process. OPG has applied for accounting orders three
3 times since the OEB first established payment amounts for the company:
4

- 5 1. **EB-2009-0174**: An administrative proceeding.
- 6 2. **EB-2011-0432**: An application that addressed OPG's transition to US GAAP as
7 part of the industry-wide adoption of new accounting methodologies. The
8 application resulted in approximately \$60M being recovered from customers.
- 9 3. **EB-2015-0374**: An application filed pursuant to OEB direction, reflecting a
10 change in the end-of-life for nuclear facilities. The application will result in
11 approximately \$70M being refunded to customers.
12

13 In OPG's submission, accounting orders remain an appropriate mechanism by which to
14 address the financial impact of unforeseen events that may affect the nuclear business
15 during the 2017-2021 period.
16

17 Continued use of accounting orders to address unforeseen events would also be
18 consistent with the Payment Amounts Order of the OEB in EB-2012-0002, in which the
19 OEB directed that:
20

21 **OPG shall file an accounting order application...** if, other than as a
22 result of an Ontario Nuclear Funds Agreement Reference Plan update,
23 OPG proposes to effect an accounting change impacting the calculation
24 of its Nuclear Liabilities that results in a revenue requirement impact for
25 the prescribed facilities that is neither reflected in the current or
26 proposed payment amounts nor recorded in the Nuclear Liability Deferral
27 Account (including, without limitation, any change in the useful lives of
28 any asset for depreciation or amortization purposes). **OPG shall not be**
29 **required to apply for such accounting orders if the impact on the**
30 **annualized revenue requirement impact for the prescribed facilities**
31 **is less than \$10M.** [Emphasis added]
32

33 The Payment Amounts Order in EB-2013-0321 included a similar direction.⁵ OPG notes
34 that the OEB applied a \$10M materiality threshold to both directions, consistent with the
35 threshold proposed by OPG in this application.

⁵ EB-2013-0321, Payment Amounts Order, page 9, item 14.